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Public Belt Railroad Commission for the City of New Orleans

*Management's Discussion and Analysis,
Financial Statements and Additional Information
as of and for the Year Ended December 31,
2004 and Independent Auditors' Report*

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7-20-05

PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-10
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004:	
Balance Sheets	11-12
Statements of Revenues, Expenses and Changes in Net Assets	13-14
Statements of Cash Flows	15-16
Notes to Financial Statements	17-20
ADDITIONAL INFORMATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003:	21
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	22
Public Belt Railroad and Mississippi River Bridge—Schedule of Insurance in Force	23
Mississippi River Bridge—Schedule of Operating Statistics	24
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	25

INDEPENDENT AUDITORS' REPORT

To the President and Members of
Public Belt Railroad Commission
for the City of New Orleans
New Orleans, Louisiana

We have audited the accompanying basic financial statements of the individual funds of the Public Belt Railroad Commission for the City of New Orleans as of December 31, 2004, and for the year then ended, listed in the accompanying table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of the individual funds of the Public Belt Railroad Commission for the City of New Orleans at December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplemental information is the responsibility of the Public Belt Railroad Commission for the City of New Orleans' management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2005, on our consideration of the Public Belt Railroad Commission for the City of New Orleans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

June 16, 2005

Management's Discussion and Analysis (Unaudited)

This narrative discussion and analysis is intended to serve as an introduction to the basic financial statements as of and for the year ended December 31, 2004, of the individual funds of the Public Belt Railroad Commission for the City of New Orleans (the "Commission"). The information presented here should be read in conjunction with the basic financial statements, notes and additional information found in this report.

Overview of the Financial Statements

The Commission operates a railroad system in and around the City of New Orleans as well as a bridge across the Mississippi River ("Huey P. Long Bridge"). The financial statements in this report present the financial condition, results of operations and cash flows of the Commission, including its railroad system fund ("Public Belt Railroad") and its bridge operations fund ("Mississippi River Bridge"). See the notes to the financial statements for a summary of the Commission's significant accounting policies.

The Commission's financial statements consist of three sections – Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the basic financial statements) and additional information. This information taken collectively is designed to provide readers with an understanding of the Commission's financial condition and its operations.

The *Combining Balance Sheets* present information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Commission's financial position is improving or deteriorating.

The *Combining Statements of Revenues, Expenses and Changes in Net Assets* present information showing how the Commission's net assets changed as a result of current year operations. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not affect cash until future fiscal periods.

The *Combining Statements of Cash Flows* present information showing how the Commission's cash balance changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes a reconciliation of net income (loss) to net cash provided by operating activities (indirect method) as required by Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This reconciliation is provided to assist in the understanding of the difference between cash flows from operating activities and net income (loss).

In addition to the basic financial statements and accompanying notes, this report also presents *Additional Information* comprised of a Schedule of Insurance in Force as of December 31, 2004, and a Schedule of Operating Statistics for the years ended December 31, 2004 and 2003.

Financial Position

Summary of Net Assets

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
ASSETS:				
Current and other assets	\$ 15,943,125	\$ 16,228,562	\$ (285,437)	(1.8%)
Net capital assets	25,325,575	24,623,796	701,779	2.9%
Total Assets	41,268,700	40,852,358	416,342	1.0%
LIABILITIES:				
Current liabilities	2,033,436	2,357,048	(323,612)	(13.7%)
Casualty and other reserves	2,346,047	3,129,013	(782,966)	(25.0%)
Total Liabilities	4,379,483	5,486,061	(1,106,578)	(20.2%)
NET ASSETS:				
Invested in Capital Assets	25,325,575	24,623,796	701,779	2.9%
Unrestricted	11,563,642	10,742,501	821,141	7.6%
Total Net Assets	\$ 36,889,217	\$ 35,366,297	\$ 1,522,920	4.3%

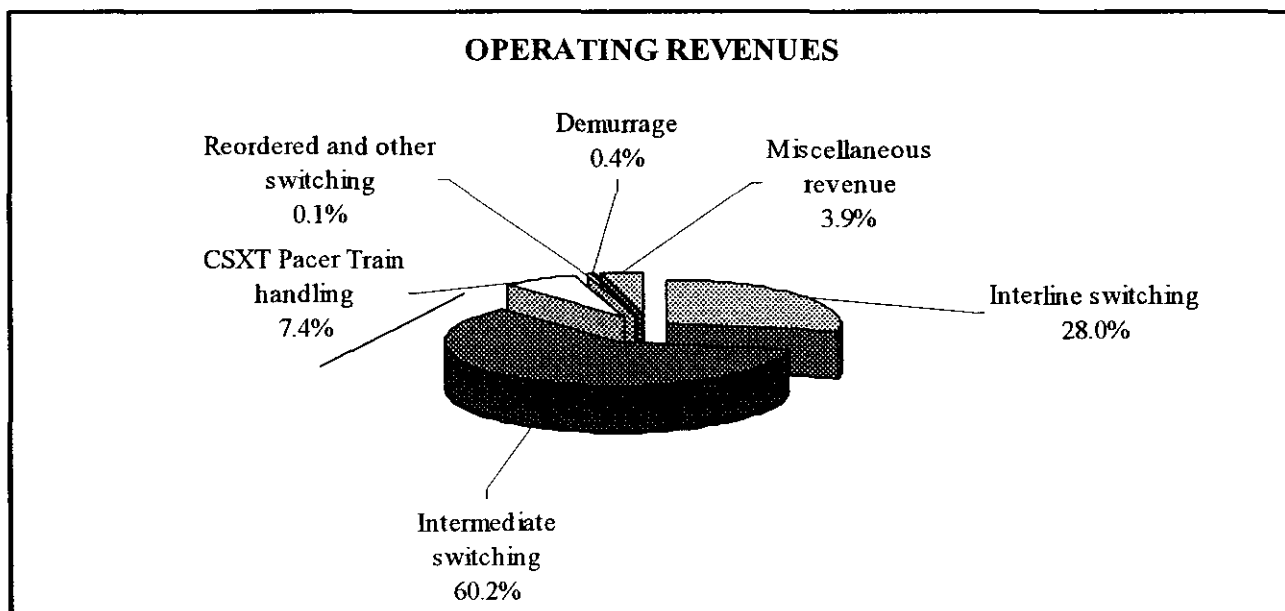
Total assets increased 1% in 2004 due primarily to an increase in capital assets of \$1,398,966 (3.7%) before accumulated depreciation. Public Belt Railroad saw an increase in 2004 of such capital assets due to rail laying projects and railway equipment purchases. There was also a \$553,487 increase in trade accounts receivable during 2004 while cash and investments decreased during the year.

Total liabilities decreased 20.2% this year, due mainly to a \$782,966 net decrease in the railroad's casualty reserve. The Commission is the defendant in legal proceedings that seek compensation for personal injury and/or property damage. The casualty reserve represents an estimate of its liability under these legal actions. The reserve balance is adjusted each year based on information and advice received from the Commission's legal counsel. Additional details regarding the reserve may be found in Note 7 to the accompanying financial statements. Current liabilities decreased 13.7% this year as a result of a year end Accounts Payable balance that was \$305,269 lower than 2003's year end balance.

The largest portion of the Commission's net assets (69% in 2004 and 70% in 2003) represents its investment in capital assets (e.g., land, buildings, bridges, railroad tracks, locomotives, and other equipment), less any related outstanding debt used to acquire those assets. The Commission had no long-term debt at December 31, 2004 or 2003. The Commission uses these assets to provide service to its Class One railroad partners and to its industry customers, primarily tenants of the Port of New Orleans; consequently, these assets are not available for future spending. The Commission's unrestricted net assets, \$11,563,642 for 2004, may be used to meet the Commission's ongoing obligations.

Operating Revenues

The following chart shows major sources and the percentage of operating revenues for the year ended December 31, 2004.



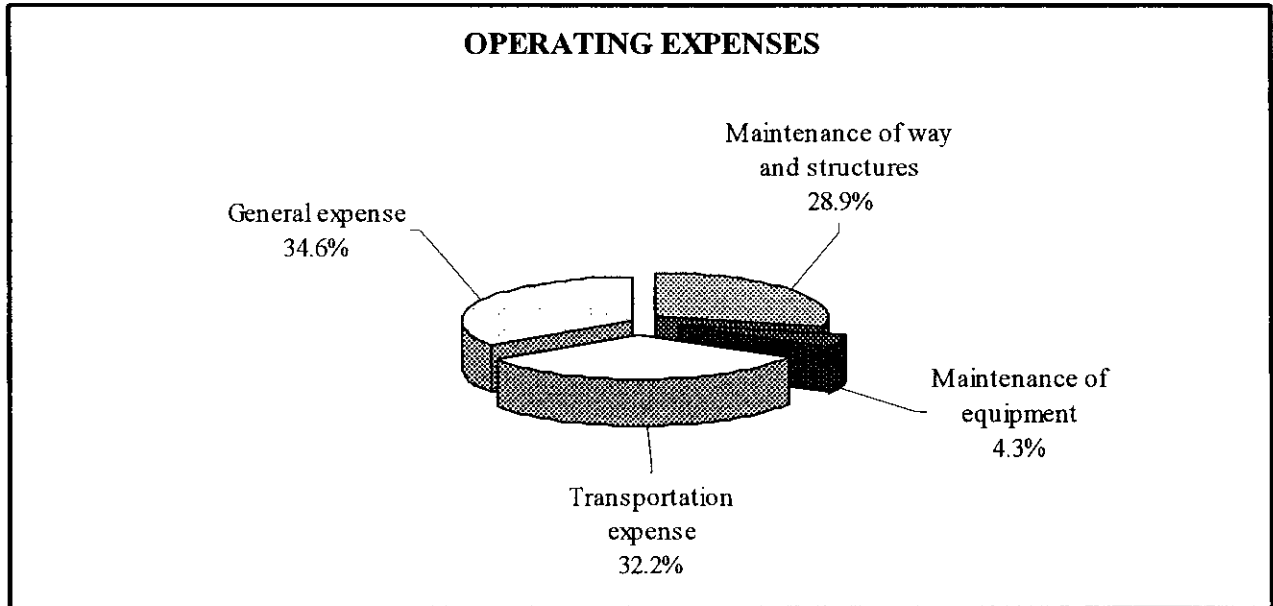
Operating Revenues by Major Source

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
Interline switching	\$ 3,964,153	\$ 3,160,451	\$ 803,702	25.4%
Intermediate switching	8,531,253	7,527,502	1,003,751	13.3%
CSXT Pacer Train handling	1,048,080	1,607,680	(559,600)	(34.8%)
Reordered and other switching	14,110	10,537	3,573	33.9%
Demurrage	53,750	111,920	(58,170)	(52.0%)
Miscellaneous revenue	551,253	577,360	(26,107)	(4.5%)
Total operating revenue	\$ 14,162,599	\$ 12,995,450	\$ 1,167,149	9.0%

The \$1,167,149 net increase in the Public Belt Railroad's operating revenue for the year ended December 31, 2004, was due mainly to increases in both intermediate and interline switching revenue, including railcar storage switching. The Railroad performs interline switching service for customers located along the wharves and industries of the Port of New Orleans and for storage customers who pay for railcar storage space on the Railroad's tracks. During 2004, storage customers – Formosa Plastics, Pinnacle Polymers, M&G Polymers, and Honeywell Ltd. – were responsible for a combined increase of \$475,970 in storage switching. The \$1,003,751 increase in intermediate switching revenue resulted primarily from higher contract rates for switching service to the Public Belt's Class One railroad customers. These increases, offset by decreases in CSXT Pacer Train handling, Demurrage, and Miscellaneous revenue resulted in the net increase in operating revenue.

Operating Expenses

The following chart shows major expense categories and the percentage of operating expenses for the year ended December 31, 2004.



Operating Expenses by Major Function

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
Maintenance of way and structures	\$ 5,123,515	\$ 5,305,275	\$ (181,760)	(3.4%)
Maintenance of equipment	754,108	570,449	183,659	32.2%
Transportation expense	5,711,404	7,049,889	(1,338,485)	(19.0%)
General expense	6,122,916	5,764,291	358,625	6.2%
Total operating expenses	\$ 17,711,943	\$ 18,689,904	\$ (977,961)	(5.2%)

There was a \$977,961 net decrease in operating expenses during the current year. Wage and salary costs rose in 2004, accompanied by higher payroll tax expenses. These costs were more than offset, however, by a significant reduction in amounts reserved for future estimated payments of personal injury and property damage lawsuits and claims. As was mentioned previously in this report, the casualty reserve represents an estimate of the Commission's liability under certain legal actions, and is adjusted each year based on information and advice received from the Commission's legal counsel.

Non-Operating Revenues and Expenses

Non-Operating Revenues

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
Joint facility rent	\$ 561,718	\$ 457,914	\$ 103,804	22.7%
Income from lease of road equipment	110	100	10	10.0%
Miscellaneous rent income	426,153	464,218	(38,065)	(8.2%)
Income from non-operating property	305,980	294,412	11,568	3.9%
Income from investments	357,462	501,645	(144,183)	(28.7%)
Provision for doubtful accounts	5,204	0	5,204	
Miscellaneous income	43,674	25,276	18,398	72.8%
Total non-operating revenue	\$ 1,700,301	\$ 1,743,565	\$ (43,264)	(2.5%)

The net decrease of \$43,264 in Public Belt Railroad's non-operating revenues results mainly from a decrease of \$144,183 (28.7%) in Income from investments, coupled with a \$103,804 (22.7%) increase in Joint facility rent income. Joint facility rents are derived from reimbursements from Class One railroad partners for shared track and interlocker maintenance costs.

Non-Operating Expenses

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
Hire of freight cars -- per diem	\$ 243,419	\$ 263,286	\$ (19,867)	(7.5%)
Interest expense	0	8,070	(8,070)	(100.0%)
Total non-operating expenses	\$ 243,419	\$ 271,356	\$ (27,937)	(10.3%)

The net decrease of \$27,937 in Public Belt Railroad's non-operating expenses results from a decrease of \$19,867 in expenses related to the Hire of freight cars, plus the elimination of Interest expense in 2004. Car hire is paid to railcar owners for the time the railcars spend on the Public Belt's line. The more time spent in active transportation, the more profitable the railcar is to its owner. Car hire represents compensation to railcar owners for time the cars are kept from active transportation and is standard throughout the railroad industry. Interest expense was eliminated in 2004 due to the fact that the Commission paid off all of its long-term debt during 2003.

Summary of Changes in Net Assets

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues	\$ 14,162,599	\$ 12,995,450	\$ 1,167,149	9.0%
Operating Expenses	17,711,943	18,689,904	(977,961)	(5.2%)
Income (Loss) before Tax				
Accruals and Reimbursement	(3,549,344)	(5,694,454)	(2,145,110)	(37.7%)
Payroll Tax Accruals	(1,591,872)	(1,581,289)	10,583	0.7%
Reimbursement from Joint Tenant				
Lines and State of Louisiana	5,207,254	5,378,628	(171,374)	(3.2%)
Railway Operating Income (Loss)	66,038	(1,897,115)	1,963,153	NM*
Railway Rental Income, net	318,299	194,628	123,671	63.5%
Other Income	1,138,583	1,277,581	(138,998)	(10.9%)
Net Income (Loss)	\$ 1,522,920	\$ (424,906)	\$ 1,947,826	NM*

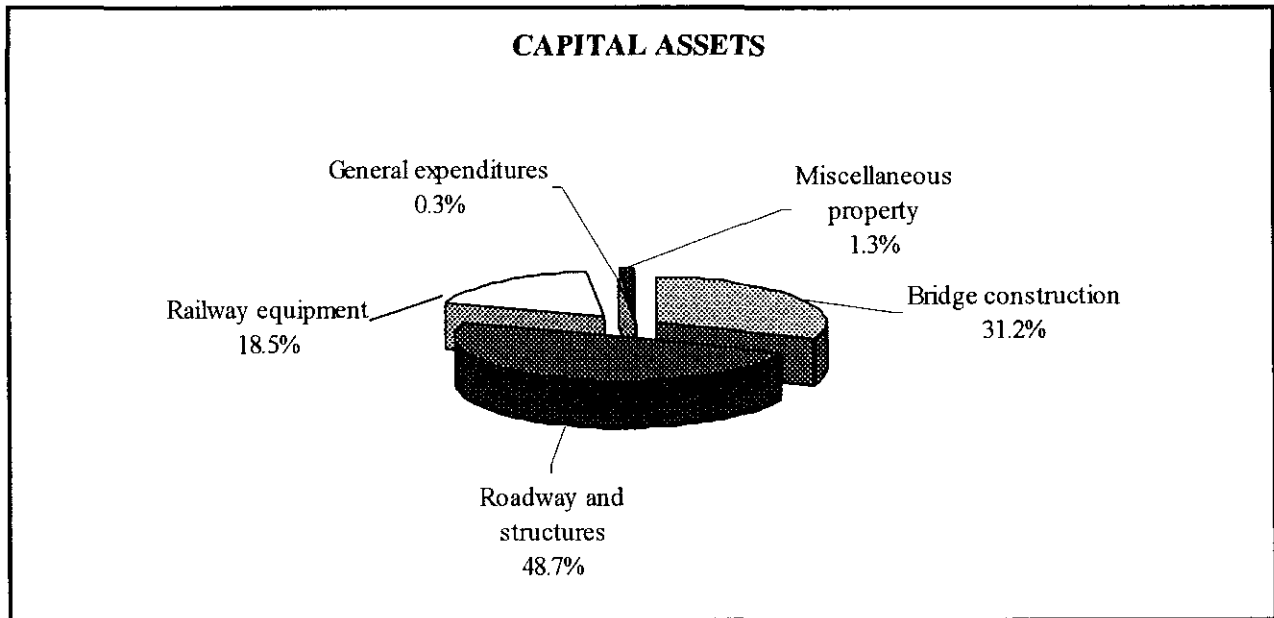
* NM = Not Meaningful

The Public Belt Railroad showed Operating Income of \$66,038 for the year ended December 31, 2004. This result was fueled by a \$1,167,149 (9.0%) increase in operating revenues with an accompanying \$977,961 (5.2%) decrease in operating expenses. While Payroll Tax Accruals and Reimbursement from Joint Tenant Lines and the State of Louisiana remained nearly the same from 2003 to 2004, a \$123,671 increase in Railway Rental Income further boosted 2004's Net Income.

Long-term Debt Activity

Prior to 2003, the Commission entered into agreements to purchase certain railroad equipment and finance it under arrangements with a local bank. The debt was associated with the purchase of four locomotives, the refurbishment of another locomotive, and the purchase of an uninterrupted power source with backup electric generator for the main office building. Additional details regarding this long-term debt can be found in Note 6 to the accompanying financial statements. Payments of long-term debt totaled \$1,376,024 during 2003. There was no long-term debt activity during 2004, and no long-term debt was outstanding at December 31, 2004 or 2003.

Capital Asset Activity



Capital Assets at Cost

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
Bridge construction	\$ 12,352,463	\$ 12,264,785	\$ 87,678	0.7%
Roadway and structures	19,248,655	18,107,109	1,141,546	6.3%
Railway equipment	7,321,603	7,157,027	164,576	2.3%
General expenditures	108,697	108,697	0	0.0%
Miscellaneous property	514,671	509,505	5,166	1.1%
Total Capital Assets at Cost	39,546,089	38,147,123	1,398,966	3.7%
Less Accumulated Depreciation	14,220,514	13,523,327	697,187	5.2%
Net Capital Assets	\$ 25,325,575	\$ 24,623,796	\$ 701,779	2.9%

The Commission's investment in capital assets is summarized in the preceding table. The total increase in capital assets this fiscal year was \$1,398,966 (3.7%) before accumulated depreciation and amortization. More detailed information can be found in Note 5 to the accompanying financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances. Questions concerning any of the information should be addressed to the Chief Financial and Mechanical Officer, New Orleans Public Belt Railroad, 4822 Tchoupitoulas Street, New Orleans, Louisiana 70115.

PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS

BALANCE SHEETS DECEMBER 31, 2004

ASSETS	Public Belt Railroad	Mississippi River Bridge	Eliminations	Combined
CURRENT ASSETS:				
Cash	\$ 362,949	\$ 941,490	\$ -	\$ 1,304,439
Investments	5,476,226			5,476,226
Accounts receivable—net	3,508,064	510,605		4,018,669
Advances for maintenance requisitions— Mississippi River Bridge Fund	987,123		(987,123)	
Materials and supplies	993,210			993,210
Accrued interest and other current assets	140,581			140,581
 Total current assets	<u>11,468,153</u>	<u>1,452,095</u>	<u>(987,123)</u>	<u>11,933,125</u>
CAPITAL ASSETS—At cost:				
Bridge construction		12,352,463		12,352,463
Roadway and structures	18,888,823	359,832		19,248,655
Railway equipment	7,321,603			7,321,603
General expenditures	108,697			108,697
Miscellaneous property	238,022	276,649		514,671
	26,557,145	12,988,944		39,546,089
Less accumulated depreciation	<u>(7,465,528)</u>	<u>(6,754,986)</u>		<u>(14,220,514)</u>
 Total capital assets	<u>19,091,617</u>	<u>6,233,958</u>		<u>25,325,575</u>
OTHER:				
Investments—designated	4,010,000			4,010,000
Advances to the Mississippi River Bridge Fund for additions and betterments	1,290,399		(1,290,399)	
Advances to Public Belt Railroad		1,380,309	(1,380,309)	
 Total other	<u>5,300,399</u>	<u>1,380,309</u>	<u>(2,670,708)</u>	<u>4,010,000</u>
 TOTAL	<u>\$35,860,169</u>	<u>\$ 9,066,362</u>	<u>\$ (3,657,831)</u>	<u>\$ 41,268,700</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	Public Belt Railroad	Mississippi River Bridge	Eliminations	Combined
CURRENT LIABILITIES:				
Due to Public Belt Railroad	\$	\$ 987,123	\$ (987,123)	\$ -
Accounts payable	1,488,989			1,488,989
Accrued payroll and taxes	<u>544,447</u>			<u>544,447</u>
Total current liabilities	<u>2,033,436</u>	<u>987,123</u>	<u>(987,123)</u>	<u>2,033,436</u>
CASUALTY AND OTHER RESERVES	<u>2,346,047</u>			<u>2,346,047</u>
OTHER LIABILITIES AND DEFERRED CREDITS:				
Advances from the Mississippi River Bridge Fund	1,380,309		(1,380,309)	
Advances from Public Belt Railroad		<u>1,290,399</u>	<u>(1,290,399)</u>	
	<u>1,380,309</u>	<u>1,290,399</u>	<u>(2,670,708)</u>	
NET ASSETS:				
Invested in capital assets	19,091,617	6,233,958		25,325,575
Unrestricted	<u>11,008,760</u>	<u>554,882</u>		<u>11,563,642</u>
Total net assets	<u>30,100,377</u>	<u>6,788,840</u>		<u>36,889,217</u>
TOTAL	<u>\$35,860,169</u>	<u>\$ 9,066,362</u>	<u>\$ (3,657,831)</u>	<u>\$41,268,700</u>

PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2004

	Public Belt Railroad	Mississippi River Bridge	Combined
OPERATING REVENUE:			
Switching:			
Interline	\$ 3,964,153	\$	\$ 3,964,153
Intermediate	8,531,253		8,531,253
CSXT Pacer Train	1,048,080		1,048,080
Reordered and other	14,110		14,110
<i>Total switching</i>	<u>13,557,596</u>		<u>13,557,596</u>
Incidentals:			
Demurrage	53,750		53,750
Miscellaneous revenue	535,112	16,141	551,253
<i>Total incidentals</i>	<u>588,862</u>	<u>16,141</u>	<u>605,003</u>
<i>Total operating revenue</i>	<u>14,146,458</u>	<u>16,141</u>	<u>14,162,599</u>
OPERATING EXPENSES:			
Maintenance of way and structures	685,626	4,437,889	5,123,515
Maintenance of equipment	616,554	137,554	754,108
Transportation expense	5,385,825	325,579	5,711,404
General expense	5,623,398	499,518	6,122,916
<i>Total operating expenses</i>	<u>12,311,403</u>	<u>5,400,540</u>	<u>17,711,943</u>
INCOME (LOSS) BEFORE PAYROLL TAX ACCRUALS AND REIMBURSEMENT	1,835,055	(5,384,399)	(3,549,344)
PAYROLL TAX ACCRUALS	(1,164,670)	(427,202)	(1,591,872)
REIMBURSEMENT FROM JOINT TENANT LINES AND STATE OF LOUISIANA		5,207,254	5,207,254
RAILWAY OPERATING INCOME (LOSS)	<u>670,385</u>	<u>(604,347)</u>	<u>66,038</u>

(Continued)

PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2004

	Public Belt Railroad	Mississippi River Bridge	Combined
RAILWAY RENTAL INCOME (EXPENSES):			
Hire of freight cars—per diem	(243,419)		(243,419)
Joint facility rent	<u>138,009</u>	<u>423,709</u>	<u>561,718</u>
	<u>(105,410)</u>	<u>423,709</u>	<u>318,299</u>
OTHER INCOME (EXPENSES):			
Income from lease of road equipment	110		110
Miscellaneous rent income	426,153		426,153
Interest expense			
Income from non-operating property	305,980		305,980
Income from investments	357,462		357,462
Provision for doubtful accounts		5,204	5,204
Miscellaneous income		<u>43,674</u>	<u>43,674</u>
	<u>1,089,705</u>	<u>48,878</u>	<u>1,138,583</u>
NET INCOME (LOSS)	1,654,680	(131,760)	1,522,920
NET ASSETS—Beginning of year	<u>28,445,697</u>	<u>6,920,600</u>	<u>35,366,297</u>
NET ASSETS—End of year	<u>\$30,100,377</u>	<u>\$ 6,788,840</u>	<u>\$36,889,217</u>

See notes to financial statements.

(Concluded)

PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2004

	Public Belt Railroad	Mississippi River Bridge	Combined
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 14,293,845	\$5,974,486	\$ 20,268,331
Cash paid for materials and services	<u>(13,776,420)</u>	<u>(6,086,693)</u>	<u>(19,863,113)</u>
Net cash provided by (used in) operating activities	<u>517,425</u>	<u>(112,207)</u>	<u>405,218</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Repayment of long-term debt			
Interest paid on long-term debt			
Property additions—net	(1,628,738)	(110,088)	(1,738,826)
Net advances to Mississippi River Bridge Fund for additions and betterments	<u>(92,843)</u>	<u>92,843</u>	<u> </u>
Net cash used in capital and related financing activities	<u>(1,721,581)</u>	<u>(17,245)</u>	<u>(1,738,826)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of investments—net	620,321		620,321
Cash received for interest	<u>446,391</u>	<u> </u>	<u>446,391</u>
Net cash provided by investing activities	<u>1,066,712</u>	<u> </u>	<u>1,066,712</u>
NET DECREASE IN CASH	(137,444)	(129,452)	(266,896)
CASH—Beginning of year	<u>500,393</u>	<u>1,070,942</u>	<u>1,571,335</u>
CASH—End of year	<u>\$ 362,949</u>	<u>\$ 941,490</u>	<u>\$ 1,304,439</u>

(Continued)

PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2004

	Public Belt Railroad	Mississippi River Bridge	Combined
RECONCILIATION OF NET INCOME (LOSS) TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net income (loss)	\$ 1,654,680	\$ (131,760)	\$ 1,522,920
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Income from investments	(357,462)		(357,462)
Depreciation	896,031	141,016	1,037,047
(Increase) decrease in accounts receivable	(719,865)	166,378	(553,487)
Interest expense			
Decrease (increase) in advances for maintenance requisitions	287,841	(287,841)	
Increase in materials and supplies	(180,638)		(180,638)
(Decrease) increase in accounts payable	(305,269)		(305,269)
Decrease in accrued payroll and taxes	(18,343)		(18,343)
(Decrease) increase in casualty and other reserves	(782,966)		(782,966)
Other—net	<u>43,416</u>	<u></u>	<u>43,416</u>
Net cash provided by (used in) operating activities	<u>\$ 517,425</u>	<u>\$ (112,207)</u>	<u>\$ 405,218</u>

See notes to financial statements.

(Concluded)

PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements in this report present the financial condition, results of operations and cash flows of the Public Belt Railroad Commission for the City of New Orleans ("Commission") including its railroad system fund ("Public Belt Railroad") and its bridge operations fund ("Mississippi River Bridge"). The Commission operates a railroad system in and around the City of New Orleans as well as a bridge across the Mississippi River ("Huey P. Long Bridge").

The accompanying policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to proprietary component units of governmental entities. A summary of the Commission's significant accounting policies follows:

Basis of Presentation—Fund Accounting—The proprietary funds are used to account for the Commission's ongoing operations and activities which are similar to those in the private sector. Proprietary funds are accounted for using a flow of economic resource measurement focus under which all assets and all liabilities associated with the operation of these funds are included in the balance sheet. The operating statements present increases (revenues) and decreases (expenses) in total net assets. The Commission maintains two separate proprietary funds – the Public Belt Railroad and the Mississippi River Bridge.

Basis of Accounting—The Commission prepares financial statements in accordance with accounting principles generally accepted in the United States. Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Commission has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), excluding those issued after November 30, 1989.

Basis of Reporting—Effective January 1, 2003, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and also the required portions of GASB Statements No. 37 and 38, which modified the disclosure requirements of GASB No. 34. GASB No. 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt*—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted*—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted*—This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Investments are recorded at fair value in accordance GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties and has generally been based upon quoted values. This method of accounting causes fluctuations in reported investment values based on fluctuations in the investment market. Fluctuations in the fair value of investments are recorded as income or expense in the statements of operations. The Commission recorded a loss of \$108,000 in 2004 due to changes in the market value of investments. The Commission applies the provisions of the Statement to all of its investments.

Accounts receivable are carried in the financial statements net of an allowance for doubtful accounts, which has been determined based on an analysis of outstanding accounts at December 31. No allowance was recorded at December 31, 2004 since all accounts were deemed collectable.

Materials and supplies are valued at the lower of cost or market on the first-in, first-out (FIFO) method.

Capital assets are recorded at cost. The current cost of repairs is charged to operating expense. All property additions are capitalized and depreciated on the straight-line basis over the estimated service lives. Annual depreciation rates range from 1.75% to 10%. When assets or equipment are retired or sold, the cost, net of accumulated depreciation, is removed from the accounts.

Income tax provisions for federal and state income taxes have not been provided as the Commission is a tax exempt entity.

Revenues and Reimbursements are recorded as services are performed. Approximately 70% of the 2004 revenues of the Public Belt Railroad Fund were derived from two customers. All of the reimbursements recorded by the Mississippi River Bridge Fund are derived from the State of Louisiana and two other customers under a long-term contract.

The statements of cash flows reflect all amounts included on the balance sheet caption “cash” as cash equivalents.

Total columns on the financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in accordance with accounting principles generally accepted in the United States of America. Such data is not comparable to a consolidation.

3. INVESTMENTS

Investments consist of the following at December 31, 2004 (at fair value):

Certificates of deposit	\$1,901,584
GNMA and FNMA securities	<u>7,584,642</u>
	9,486,226
Less designated portion (Note 4)	<u>4,010,000</u>
	<u>\$5,476,226</u>

Cash and certificates of deposit are fully collateralized by securities held for the Commission's benefit at the Federal Reserve Bank in New Orleans, Louisiana. The book balances of cash approximated the bank balances at December 31, 2004.

4. INVESTMENTS—DESIGNATED

The Commission established an Insurance Cash Reserve Fund in a prior year and authorized increasing the fund monthly. Disbursements from the Insurance Cash Reserve Fund can be made only for payment of personal injury and property damage claims upon approval by the Board of Commissioners. Interest earned on this fund is deposited in the general fund to be used for current operations. The balance of the Insurance Cash Reserve Fund was \$4,010,000 at December 31, 2004. The Insurance Cash Reserve Fund is considered a component of unrestricted net assets since it represents an internally imposed designation rather than an externally imposed restriction.

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2004 is summarized as follows:

	December 31, 2004			
	Beginning Balance	Increases	Decreases	Ending Balance
Cost:				
Bridge construction	\$ 12,264,785	\$ 87,678	\$ -	\$ 12,352,463
Roadway and structures	18,107,109	1,368,758	(227,212)	19,248,655
Railway equipment	7,157,027	277,246	(112,670)	7,321,603
General expenditures	108,697			108,697
Miscellaneous property	<u>509,505</u>	<u>59,366</u>	<u>(54,200)</u>	<u>514,671</u>
Total	<u>38,147,123</u>	<u>1,793,048</u>	<u>(394,082)</u>	<u>39,546,089</u>
Less accumulated depreciation and amortization:				
Bridge construction	(6,582,282)	(115,920)		(6,698,202)
Roadway and structures	(5,765,933)	(593,008)	178,768	(6,180,173)
Railway equipment	(1,126,180)	(303,023)	143,848	(1,285,355)
Miscellaneous property	<u>(48,932)</u>	<u>(25,096)</u>	<u>17,244</u>	<u>(56,784)</u>
Total	<u>(13,523,327)</u>	<u>(1,037,047)</u>	<u>339,860</u>	<u>(14,220,514)</u>
Property and equipment—net	<u>\$ 24,623,796</u>	<u>\$ 756,001</u>	<u>\$ (54,222)</u>	<u>\$ 25,325,575</u>

6. LONG-TERM DEBT

Prior to 2003, the Public Belt Railroad entered into agreements to purchase certain railroad equipment and finance it under arrangements with a local bank. One agreement called for 60 monthly payments of \$43,360, including interest at 5.04% through 2003, and the other one called for 60 monthly payments of \$32,370, including interest at 5.37% through 2005. Payments of long-term debt totaled \$1,376,024 in the year ended December 31, 2003. No long-term debt was outstanding at December 31, 2004 or 2003.

7. CASUALTY RESERVES

The Commission is the defendant in legal proceedings which seek compensation for personal injury and/or property damage. The Commission has established a reserve for personal injury and property damage claims that represents an estimate of its liability under these actions.

During the year ended December 31, 2004, the Commission added approximately \$1,500,000 to the reserve and paid out approximately \$2,300,000. In addition, the Commission incurred approximately \$560,000 in related legal fees during the year ended December 31, 2004.

8. RETIREMENT PLANS

The Commission made contributions totaling \$40,000 in 2004 to an employer-funded 401(a) pension plan for non-union employees. Benefits to the participants will be paid based on the ratio of the eligible participants' units to the total units of all eligible participants. One unit is allocated for each half-year of service in an exempted position and one unit for each \$1,000 of salary in each eligible year.

Prior to December 31, 1990, the Commission accrued contributions to a defined benefit unfunded pension reserve for non-union employees. The Commission determined that the balance accrued at December 31, 1990 would be sufficient to cover all benefits to be paid under the Plan and, accordingly, no additional accruals have been made under the Plan.

9. INTERFUND TRANSACTIONS

The Public Belt Railroad provides funds for additions and betterments to the Mississippi River Bridge but is not reimbursed until retirement of the related asset occurs. Advances to the Mississippi River Bridge for additions and betterments were \$1,290,399 at December 31, 2004. The Commission also provides material, labor and other miscellaneous expenditures related to maintenance of the Bridge to the Mississippi River Bridge Fund. This is billed monthly and generally collected from the Mississippi River Bridge Fund within a three-month period. The balance payable at December 31, 2004 was \$987,123. The Public Belt Railroad Fund also had a liability to the Mississippi River Bridge Fund for \$1,380,309 at December 31, 2004. None of these interfund transactions were interest bearing.

* * * * *

ADDITIONAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the President and Members of
Public Belt Railroad Commission
for the City of New Orleans
New Orleans, Louisiana

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on pages 23 through 25 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Public Belt Railroad Commission for the City of New Orleans management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

June 16, 2005

**PUBLIC BELT RAILROAD COMMISSION
FOR THE CITY OF NEW ORLEANS
PUBLIC BELT RAILROAD AND MISSISSIPPI RIVER BRIDGE**

**SCHEDULE OF INSURANCE IN FORCE
DECEMBER 31, 2004**

The Commission is self-insured for the first \$3,000,000 for the Ultimate Net Loss arising out of Covered Injuries which are: Advertising Liability, Bodily Injury, Employer Liability, Evacuation Expenses, Fire Suppression Expenses, Personal Injury, Pollution Clean-up Expenses and Property Damage Claims. Coverage is also afforded for automobile, truck, and trailer insurance, and for office buildings located at 4822 Tchoupitoulas St. and 5403 Coffee Drive, New Orleans, Louisiana. In addition, coverage is provided for the main span of the Huey P. Long Bridge.

	Coverage	Period
COMPREHENSIVE RAILROAD LIABILITY:		
Limits of liability (inclusive of defense expenses):		
Each accident	\$ 10,000,000	1 Year
Policy aggregate	20,000,000	
Self-insured retention (inclusive of defense expenses):		
Each accident	3,000,000	
AUTOMOBILE AND TRUCK LIABILITY:		
Excess automotive liability	\$ 5,000,000	1 Year
Bodily injury and property damage liability	1,000,000	
Medical payment on passenger vehicles	5,000	
Comprehensive and collision coverage	1,000	
PROPERTY AND PREMISES LIABILITY - 4822 TCHOUPITOULAS STREET AND 5403 COFFEE DRIVE:		
Limits of insurance:		
General aggregate limit	\$ 2,000,000	1 Year
Each occurrence limit	1,000,000	
Personal and advertising injury limit	1,000,000	
Fire damage limit (any one fire)	1,000,000	
Medical expense limit (any one person)	5,000	
Data processing limit (Tchoupitoulas Street)	200,000	
Data processing limit (Coffee Drive)	50,000	
PROPERTY COVERAGES:		
Limits of insurance—building—Tchoupitoulas Street	\$ 804,000	
Business personal property—Tchoupitoulas Street	253,024	
Limits of insurance—building—Coffee Drive	339,000	
Business personal property—Coffee Drive	116,965	
90% co-insurance each location (includes replacement cost)		
MISSISSIPPI RIVER BRIDGE:		
Property damage	\$ 108,543,310	1 Year
Debris removal	2,000,000	
Use and occupancy	5,200,000	

**PUBLIC BELT RAILROAD COMMISSION
FOR THE CITY OF NEW ORLEANS
MISSISSIPPI RIVER BRIDGE**

**SCHEDULE OF OPERATING STATISTICS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Number of railway cars crossing the Bridge during the year	542,102	545,687
Number of bridge employees at year end	23	22



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the President and Members of
Public Belt Railroad Commission
for the City of New Orleans
New Orleans, Louisiana

We have audited the basic financial statements of the individual funds of the Public Belt Railroad Commission for the City of New Orleans (the "Commission") as of and for the year ended December 31, 2004, and have issued our report thereon dated June 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Commission, management, and others within the Commission and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513 this report is distributed by the Legislative Auditor as a public document.

Deloitte & Touche LLP

June 16, 2005